
HORSEMEN'S INSURANCE ALLIANCE SPC

FINANCIAL STATEMENTS

DECEMBER 31, 2011

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **DEC 12 2012**



Postlethwaite
& Netterville

A Professional Accounting Corporation

www.pncpa.com

HORSEMEN'S INSURANCE ALLIANCE SPC

DECEMBER 31, 2011

CAYMAN ISLANDS

CONTENTS

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1
<u>FINANCIAL STATEMENTS</u>	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Shareholder's Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 14
<u>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</u>	15 – 16
<u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u>	17
<u>SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS</u>	18 – 19

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Horsemen's Insurance Alliance SPC
Cayman Islands

We have audited the accompanying balance sheets of Horsemen's Insurance Alliance SPC (the "Company") as of December 31, 2011 and 2010 and the related statements of operations and changes in shareholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horsemen's Insurance Alliance SPC as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 27, 2012, on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

Postlethwaite + Netterville

Metairie, Louisiana
June 27, 2012

HORSEMEN'S INSURANCE ALLIANCE SPC
BALANCE SHEETS

DECEMBER 31, 2011 AND 2010
(stated in United States dollars)

	<u>2011</u>		<u>2010</u>	
	<u>GP</u>	<u>SP</u>	<u>GP</u>	<u>SP</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 128,478	\$ 115,959	\$ 128,583	\$ 324,982
Cash held in trust	-	153,725	-	2,036,166
Claims escrow funds	-	161,000	-	161,000
Premiums receivable	-	51,200	-	51,200
Provision for recoverable under rating plan	-	2,318,976	-	1,754,488
Deferred ceding commission	-	-	-	220,733
Prepayments and accrued interest	-	-	-	25,572
TOTAL ASSETS	\$ 128,478	\$ 2,800,860	\$ 128,583	\$ 4,574,141

LIABILITIES AND SHAREHOLDER'S EQUITY

LIABILITIES

Accounts payable and accrued expenses	\$ -	\$ 47,100	\$ -	\$ 35,100
Unearned premiums	-	-	-	966,101
Losses payable	-	115,984	-	135,677
Reserve for losses and loss-adjustment expenses	-	2,809,054	-	3,243,287
TOTAL LIABILITIES	-	2,972,138	-	4,380,165

SHAREHOLDER'S EQUITY

Share capital	1,000	1,000	1,000	1,000
Additional paid-in capital	119,000	1,511,434	119,000	1,511,434
Retained earnings / (accumulated deficit)	8,478	(1,683,712)	8,583	(1,318,458)
TOTAL SHAREHOLDER'S EQUITY	128,478	(171,278)	128,583	193,976
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 128,478	\$ 2,800,860	\$ 128,583	\$ 4,574,141

The accompanying notes are an integral part of these financial statements.

HORSEMEN'S INSURANCE ALLIANCE SPC

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(stated in United States Dollars)

	2011		2010	
	GP	SP	GP	SP
<u>UNDERWRITING INCOME</u>				
Reinsurance premiums assumed	\$ -	\$ -	\$ -	\$ 1,948,215
Movement in unearned premium	-	966,101	-	(101,322)
Rating plan adjustment	-	564,488	-	869,517
TOTAL UNDERWRITING INCOME	-	1,530,589	-	2,716,410
<u>UNDERWRITING EXPENSES</u>				
Losses paid	-	1,863,444	-	1,532,543
Movement in reserve for losses and loss-adjustment expenses	-	(434,233)	-	962,457
Ceding commission	-	220,733	-	445,069
TOTAL UNDERWRITING EXPENSES	-	1,649,944	-	2,940,069
<u>NET UNDERWRITING LOSS</u>	-	(119,355)	-	(223,659)
<u>INTEREST INCOME</u>	39	804	141	1,361
<u>ADMINISTRATIVE EXPENSES</u>	(144)	(246,703)	(61)	(265,345)
<u>NET INCOME / (LOSS)</u>	\$ (105)	\$ (365,254)	\$ 80	\$ (487,643)

The accompanying notes are an integral part of these financial statements.

HORSEMEN'S INSURANCE ALLIANCE SPC

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

(stated in United States Dollars)

	Share Capital		Additional Paid in Capital		Retained Earnings / (Accumulated Deficit)	
	GP	SP	GP	SP	GP	SP
<u>Balance at December 31, 2009</u>	\$ 1,000	\$ 1,000	\$ 119,000	\$ 1,056,434	\$ 8,503	\$ (830,815)
Additional paid in capital	-	-	-	455,000	-	-
Net income / (loss)	-	-	-	-	80	(487,643)
<u>Balance at December 31, 2010</u>	1,000	1,000	119,000	1,511,434	8,583	(1,318,458)
Additional paid in capital	-	-	-	-	-	-
Net loss	-	-	-	-	(105)	(365,254)
<u>Balance at December 31, 2011</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 119,000</u>	<u>\$ 1,511,434</u>	<u>\$ 8,478</u>	<u>\$ (1,683,712)</u>

The accompanying notes are an integral part of these financial statements.

HORSEMEN'S INSURANCE ALLIANCE SPC

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(stated in United States dollars)

	2011		2010	
	GP	SP	GP	SP
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Net income (loss)	\$ (105)	\$ (365,254)	\$ 80	\$ (487,643)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Change in operating assets and liabilities:				
Provision for recoverable under rating plan	-	(564,488)	-	(869,517)
Deferred ceding commission	-	220,733	-	(55)
Prepayments and accrued interest	-	25,572	-	260
Accounts payable and accrued expenses	-	12,000	-	(37,424)
Unearned premiums	-	(966,101)	-	101,322
Losses payable	-	(19,693)	-	(112,708)
Reserve for losses and loss-adjustment expenses	-	(434,233)	-	962,459
Net cash provided by (used in) operating activities	(105)	(2,091,464)	80	(443,306)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Cash held in trust	-	1,882,441	-	140,915
Net cash provided by investing activities	-	1,882,441	-	140,915
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				
Additional paid-in capital	-	-	-	455,000
Net cash provided by financing activities	-	-	-	455,000
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 (105)	 (209,023)	 80	 152,609
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	128,583	324,982	128,503	172,373
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 128,478	\$ 115,959	\$ 128,583	\$ 324,982

The accompanying notes are an integral part of these financial statements.

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Operations

The Horsemen's Insurance Alliance SPC (the "Company") was incorporated in the Cayman Islands on June 23, 2006 as a Segregated Portfolio Company with limited liability and holds an Unrestricted Class "B" Insurer's License, subject to the provisions of the Insurance Law (2004 Revision) of the Cayman Islands.

The Company is owned by Horsemen's Alliance Holdings, Inc., (the "Parent Company"), a company incorporated in the United States of America. The Parent Company is a wholly-owned subsidiary of Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. ("LaHBPA").

The Company comprises a general portfolio ("GP"), which carries no risk, and one segregated portfolio ("SP"). Pursuant to SPC law, the assets, liabilities and equity of the segregated portfolio are kept separate and segregated from the general assets of the Company. Further, the assets and liabilities of each segregated portfolio are kept segregated and separately identified from any other segregated portfolio. In the case of insolvency with respect to the Company's general business activities, creditors are entitled to recourse only to the extent of the Company's general assets. In the case of insolvency with respect to or attributable to a particular segregated portfolio, the creditors have recourse only to the specific segregated portfolio assets attributable to such segregated portfolio. Such a claim does not extend to the assets attributable to any other segregated portfolio.

The Company is required to file financial statements, audited in accordance with International Standards on Auditing, with the Cayman Islands Monetary Authority ("CIMA") and the Louisiana State Legislative Auditor within six months following year-end. Additionally, the Louisiana State Legislative Auditor requires the financial statements to be audited in accordance with U.S. generally accepted governmental auditing standards.

The principal business of the SP has been to provide reinsurance of 100% of the workers' compensation, occupational disease and employers' liability coverage issued by National Union Fire Insurance Company of Pittsburgh and other member companies of Chartis (the "Ceding Insurer") to LaHBPA. The limit of liability is \$300,000 per occurrence and \$3,040,000 in aggregate for the policy periods of July 1, 2008 to July 1, 2009, July 1, 2009 to July 1, 2010 and July 1, 2010 to July 1, 2011. See Note 12.

The Company's premium revenues are dependent on the insurance program sponsored by LaHBPA. As described in Note 12, LaHBPA implemented changes to its insurance program which are intended to reduce the amount of premium and loss exposures insured by the Company as described in the preceding paragraph. As described in Note 3, the Company maintains significant balances which are recoverable from the Ceding Insurer which are dependent on payment from LaHBPA. Additionally, under the Company's business model, the Company is dependent on continued capital contributions from LaHBPA and its parent to maintain minimum capitalization requirements and solvency. Changes in LaHBPA financial ability or intention to these financial obligations could adversely impact the Company.

Effective July 16, 2011, the Directors resolved that the SP would no longer write any new business, and upon cancellation of the current policies in force, the SP commenced running off its existing book of business.

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation

The accompanying financial statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP") and prevailing practices within the insurance industry. The Company utilizes the accrual method of accounting for financial reporting purposes. All transactions and balances are reported in United States dollars.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the reserve for losses and loss adjustment expenses, related assessments, and the provision for recoverable under rating plan. In connection with the determination of the reserve for losses and loss adjustment expenses, management estimates the reserves using the method discussed in Note 4 to these financial statements.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers cash and cash equivalents to be short-term, highly liquid assets that are readily convertible to known amounts of cash.

Reinsurance premiums assumed and ceding commission

Reinsurance premiums assumed are recognized pro-rata over the term of the policies and the unearned portions at the balance sheet dates are transferred to unearned premiums.

Ceding commission is similarly recognized on a pro-rata basis over the terms of the policies issued and the unexpensed portion, if any, is deferred and transferred to deferred ceding commission in the balance sheets.

All policies assumed by the SP are subject to a Large Risk Rating Plan ("LRRP"), under which retrospective premiums are recomputed annually in order that total premium equals ultimate losses of the SP for the policy period, subject to the maximum stop-loss limit of \$2,600,000 for each policy period. Rating plan adjustments are included in income in the period that they are determined. See Note 3.

Consistent with this policy, all available underwriting income of the SP is transferred to the provision for recoverable under rating plan, subject to the maximum stop-loss limit for each policy period. For periods where premiums exceed the maximum stop-loss limit, underwriting losses are included in income in the period that they are determined.

Interest income

Interest income is recorded on the accrual basis.

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Reserve for losses and loss-adjustment expenses

The SP determines its reserves for losses and loss-adjustment expenses on the basis of the losses reported by loss managers. Losses incurred but not reported are provided for on the basis of the advice of an independent actuary.

The reserve for losses and loss-adjustment expenses represents management's best estimate of the ultimate settlement costs of all losses and loss-adjustment expenses and are subject to the impact of further changes in loss severity, frequency and other factors. Management believes that amounts are adequate and recognizes the variability inherent in the date used in determining the liability, however, the absence of sufficient historical loss experience to support the assumptions inherent in establishing the estimate results in uncertainty as to the amount which will ultimately be required for the settlement of losses and loss expenses, and the differences could be material. The estimate is continuously reviewed, and as adjustments to the liability become necessary, they are reflected in current operations.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements in order to confirm to current reporting practices.

Note 2 - Cash Held in Trust and Claims Escrow Funds

At December 31, 2011 and 2010, the claims escrow funds held by Chartis, which are held to pay claims, were \$161,000.

The Company has entered into a trust agreement on behalf of the SP with the Ceding Insurer and Wells Fargo, N.A. (the "Bank") to secure the SP's obligations to the Ceding Insurer. Pursuant to the trust agreement, the SP's collateral was transferred into a trust account at the Bank for the sole benefit of the Ceding Insurer who has a first and prior lien on and security interest in all the assets held by the trust account. At December 31, 2011 and 2010, the trust account consisted of cash and cash equivalents amounting to \$153,725 and \$2,036,166, respectively.

Note 3 - Provision for Recoverable Under Rating Plan and Rating Plan Adjustment

The underlying policies reinsured by the Company were endorsed to include a LRRP. Under the terms of the LRRP, the ceding insurer can subject the underlying insured to further premium up to a maximum limit of \$2,600,000. The reinsurance agreement follows the fortunes of the underlying policy, and the Company recognizes a rating plan adjustment as additional premium, where losses exceed initial premium in each underwriting year.

Each year, the forecast of subject losses is determined based on the loss experience of the policies and continues until all claims are closed or earlier if mutually agreed. For the years ended December 31, 2011 and 2010, the SP had reported a net underwriting loss of \$683,843 and \$1,093,176, respectively, prior to the application of the rating plan adjustment. As a result, an adjustment of \$564,488 and \$869,517 was recognized in the statements of operations for the years ended December 31, 2011 and 2010, respectively, and the total recoverable accumulated to \$2,318,976 and \$1,754,488 in the balance sheets at December 31, 2011 and 2010, respectively.

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

NOTES TO FINANCIAL STATEMENTS

Note 3 – Provision for Recoverable Under Rating Plan and Rating Plan Adjustment (continued)

During the year ended December 31, 2011, the rating plan adjustment was recomputed for a prior policy period. The premiums for policy period 2009/2010 were \$2,943,016 which exceeded the maximum stop-loss of \$2,600,000 for the policy period. Therefore an underwriting loss of \$119,355 has been recognized in the statement of operations. Similarly, during 2010, an underwriting loss of \$223,660 was recognized in the year ended December 31, 2010.

Subsequent to year end, on March 7, 2012, Chartis made an initial distribution of \$492,898 to SP for its retrospective premium assessments.

Note 4 – Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss-adjustment expenses comprised of the following:

	2011		2010	
	GP	SP	GP	SP
Losses reported	\$ -	\$ 925,986	\$ -	\$ 1,328,085
Losses incurred but not reported and adverse development	-	1,883,068	-	1,915,202
	<u>\$ -</u>	<u>\$ 2,809,054</u>	<u>\$ -</u>	<u>\$ 3,243,287</u>

Movement in the reserve for losses and loss-adjustment expenses for all policies is summarized as follows:

	2011		2010	
	GP	SP	GP	SP
Balance – beginning of year	\$ -	\$ 3,243,287	\$ -	\$ 2,280,828
Incurred related to:				
Current year	-	1,337,917	-	1,850,000
Prior years	-	91,294	-	645,002
	-	1,429,211	-	2,495,002
Paid related to:				
Current year	-	(482,236)	-	(567,324)
Prior years	-	(1,381,208)	-	(965,219)
	-	(1,863,444)	-	(1,532,543)
Balance – end of year	<u>\$ -</u>	<u>\$ 2,809,054</u>	<u>\$ -</u>	<u>\$ 3,243,287</u>

As described in Note 12, the Company ceased writing new business and insuring risks as of July 16, 2011. Incurred losses resulting from claims related to insured events for prior years were adjusted during the years ended December 31, 2011 and 2010 due to changes in estimates of the ultimate settlement costs of such losses.

The Company engaged independent consulting actuaries to advise on the necessary level of the reserve for losses and loss-adjustment expenses. At December 31, 2011 and 2010, the estimated outstanding losses for all policy years on an undiscounted basis was \$2,809,504 and \$3,243,287, respectively, at an expected confidence level.

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

NOTES TO FINANCIAL STATEMENTS

Note 4 – Reserve for Losses and Loss Adjustment Expenses (continued)

In the opinion of the Directors, these provisions are adequate to cover the estimated ultimate liability for the losses and loss-adjustment expenses at the balance sheet date. Consistent with most companies with similar insurance operations, the Company's reserve for losses and loss-adjustment expenses is ultimately based on management's reasonable expectations of the future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e. within one year) and that the effect of such changes could be material to the financial statements. The Company does not discount its reserves for losses and loss-adjustment expenses.

Note 5- Share Capital

The following is a summary of authorized and issued and fully paid shares:

	<u>2011</u>	<u>2010</u>
Authorized:		
50,000 shares of \$1.00 each divided into:		
1,000 ordinary shares of \$1.00 each	1,000	1,000
49,000 redeemable segregated portfolio Shares of \$1.00 each	<u>49,000</u>	<u>49,000</u>
	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
1,000 ordinary shares	1,000	1,000
1,000 redeemable segregated portfolio shares	<u>1,000</u>	<u>1,000</u>
	<u>2,000</u>	<u>2,000</u>

The Ordinary Shares carry voting rights while the Redeemable Segregated Portfolio Shares do not carry the right to vote. Ordinary Shares carry the right to participate in dividends or to participate in any surplus assets available for distribution to the Members in a liquidation, dissolution, or winding up of the Company. Redeemable Segregated Portfolio Shares are designated with respect to the SP. Redeemable Segregated Portfolio Shares carry the right to receive dividends or repayment of capital provided that dividends are paid only from Redeemable Segregated Portfolio Shares relating to the SP.

The assets and liabilities of the SP are kept segregated, separate and separately identifiable from the general assets and liabilities of the Company.

Note 6- Additional Paid-In Capital

Additional paid-in capital comprises a share premium of \$119,000 on the initial issue of Ordinary Shares, \$349,000 on the initial issue of Redeemable Segregated Portfolio Shares and \$1,511,434 relating to contributed surplus from LaHBPA on behalf of the SP.

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

NOTES TO FINANCIAL STATEMENTS

Note 7- Letters of Credit

Letters of credit of \$4,949,076 as of December 31, 2011 and 2010 have been issued by the Company's banker in favor of the Ceding Insurer to secure the Company's liabilities under the reinsurance assumed. The letters of credit are secured by a guarantee from LaHBPA.

Note 8- Administrative Expenses

The Company's administrative expenses consist of the following:

	2011		2010	
	GP	SP	GP	SP
Claims	\$ -	\$ 60,666	\$ -	\$ 71,929
Management fees	-	45,000	-	45,000
Letter of credit fees	-	37,599	-	37,480
Meeting expenses	-	540	-	29,744
Audit fees	-	51,100	-	23,100
Actuarial fees	-	7,750	-	17,000
Government fees	-	16,043	-	14,207
Directors and officers insurance	-	15,637	-	13,598
Escrow service fees	-	10,941	-	11,285
Miscellaneous expenses	-	978	-	1,356
Bank charges	144	449	61	646
	<u>\$ 144</u>	<u>\$ 246,703</u>	<u>\$ 61</u>	<u>\$ 265,345</u>

The letter of credit fees and certain meeting expenses of \$37,599 and \$64,471 for the years ended December 31, 2011 and 2010, respectively, were paid on behalf of LaHBPA and are, therefore, considered related party transactions.

Note 9- Income Taxes

The Company does not consider itself to be engaged in a United States trade or business and therefore not subject to United States income taxes. If the Company should be considered to be engaged in a United States trade or business, it could be subject to US Federal income tax, Federal alternative minimum tax and branch profits tax.

Under the Cayman Islands Tax Concessions Law, the Governor in Cabinet issued an undertaking to the Company on July 4, 2006, exempting it from all local income, profit or capital gains taxes. The undertaking has been issued for a period of twenty years and, at the present time, no such taxes are levied in the Cayman Islands. Accordingly, no provision for taxes is made in these financial statements.

The Company is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority based on the technical merits of the position. The Company has evaluated its tax position and does not consider itself to be engaged in trade or business in any jurisdiction other than the Cayman Islands and therefore is not subject to income taxes. If the Company should be considered to be engaged in a trade or business in a jurisdiction outside of the Cayman Islands, it could be subject to income taxes.

Management does not believe there are any tax positions taken by the Company that are subject to uncertainty and as a result, no provisions have been made in these financial statements.

HORSEMAN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

NOTES TO FINANCIAL STATEMENTS

Note 10 – Credit Risk and Concentrations

Credit risk is the risk of a counterparty default. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for the non-exchange traded financial instrument is not backed by an exchange clearing house. Financial assets which potentially expose the Company to credit risk mainly consist of cash and cash equivalents, claims escrow funds, premiums receivable and provision for recoverable under rating plan.

However, since all cash balances and claims escrow accounts are held at reputable financial institutions, management does not anticipate any material losses from these exposures. The Company manages the exposure of premiums receivable and recoverable under rating plan credit risk by actively reviewing the financial strength of the Ceding Insurer and LaHBPA. Management does not anticipate any losses as a result of these concentrations.

Note 11- Net Worth for Regulatory Purposes

For Cayman Islands regulatory purposes, the Cayman Islands Monetary Authority recognizes letters of credit as funds available to meet the Company's insurance liabilities. Management considers that the Company's net worth for regulatory purposes, including letters of credit, is comprised as follows:

	2011		2010	
	GP	SP	GP	SP
Share capital	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Additional paid-in capital	119,000	1,511,434	119,000	1,511,434
Retained earnings (accumulated deficit)	8,478	(1,683,712)	8,583	(1,318,458)
Incoming letters of credit	-	457,000	-	300,000
	<u>\$ 128,478</u>	<u>\$ 285,722</u>	<u>\$ 128,583</u>	<u>\$ 493,976</u>

Standby irrevocable letters of credit in the amount of \$457,000 and \$300,000 at December 31, 2011 and 2010, respectively, have been pledged by the Parent Company in favor of the Company to cover the SP's regulatory capital requirements. The letters of credit expire on December 23 and July 19 of each year. Management reviews the level of security required on a periodic basis and is of the view that there will be no material losses as a result of the foregoing. The incoming letters of credit may be drawn upon by the Company under the terms of the Letter of Credit Agreement between the Company's banker and the Company.

Note 12- Going Concern and Uncertainty as to Future Operations

The going concern assumption is a fundamental principle in the preparation of financial statements. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

Effective July 1, 2011, the Directors resolved that the SP would no longer write any new business, and upon cancellation of the current policies in force, the SP commenced running off its existing book of business. Although the SP is no longer writing new business, it is the intention of the Directors to resume writing business at a future date. The Directors have no intention to wind-up operations or re-domicile the SP.

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

NOTES TO FINANCIAL STATEMENTS

Note 12- Going Concern and Uncertainty as to Future Operations (continued)

The policies assumed by the SP are subject to a LRRP under which retrospective premiums are recomputed annually. The retrospective premium assessments are due from the ceding insurer who will ultimately collect any relating funding from LaHBPA. As outlined in Note 7, sufficient letters of credit have been issued to the Ceding Insurer to cover any related credit risk to cover losses and loss-adjustment expenses as they fall due.

The Directors believe that the assets of the Company, the incoming letters of credit amounting to \$457,000 (Note 11), and commitments of LaHBPA to make future capital contributions are sufficient to cover any liabilities and administrative expenses as they become due. Additionally, as a result of the Directors' intention to continue operations of the SP, management believes the going concern assumption is appropriate based on all matters management is aware of.

Note 13- Accumulated Deficit

The Company plans to fund operating losses each year at a minimum amount equal to the general and administrative expenses for each year end. The operating losses are funded through capital contributions from LaHBPA to Parent Company to the Company. At December 31, 2011 and 2010, the accumulated deficit of \$1,683,712 and \$1,318,458 is funded by additional paid in capital amounts of \$1,511,434 and \$1,511,434.

Note 14- Federal Indictment

In November 2010, the United States indicted the President and Executive Director of LaHBPA in a 29-count indictment charging mail fraud, wire fraud, identification information fraud and health care fraud in connection with the rigging of an election by which the President and Board of Directors of LaHBPA were elected in March 2008 and financial irregularities related to a Medical Benefit Trust operated by LaHBPA. Their positions with the LaHBPA were terminated shortly after their indictments. In July 2011, the former Executive Director of the LaHBPA pleaded guilty to one count of conspiracy to commit mail fraud, wire fraud, and fraud in connection with identification documents, all in connection with the rigging of the March 2008 election. In September 2011, the former President of the LaHBPA pleaded guilty to one count of conspiracy to commit mail fraud, wire fraud, fraud in connection with identification documents and health care fraud, all in connection with the rigging of the March 2008 election and financial irregularities related to the Medical Benefit Trust. The former Executive Director and the former President were sentenced in 2012.

Following their indictments in November 2010, the then-President and then-Executive Director resigned their positions. Effective November 22, 2010, pursuant to the bylaws, the Vice President assumed the position of President. The Vice President was replaced on the Board by the trainer candidate with the next highest number of votes in the March 2008 election. On March 31, 2011, as prescribed by the bylaws of LaHBPA, an election was held to elect a new President and new Board of Directors, all to serve for a three-year term. The new President and Board of Directors were sworn into office on April 8, 2011.

The Louisiana Legislative Auditor's office has performed investigative procedures and issued a compliance audit dated May 4, 2011. As of the report date, the Louisiana Legislative Auditor's office has a pending compliance audit of LaHBPA and its related entities.

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

NOTES TO FINANCIAL STATEMENTS

Note 15- Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 27, 2012, and determined that there were no events that require further disclosure. No other events occurring after this date have been evaluated for inclusion in these financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Horsemen's Insurance Alliance SPC
Cayman Islands

We have audited the financial statements of Horsemen's Insurance Alliance SPC, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 27, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that we consider to be deficiencies, significant deficiencies, or material weaknesses, as defined above. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of Horsemen's Insurance Alliance SPC and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Metairie, Louisiana
June 27, 2012

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2011

2010-1 Timely Submission of Audit Report to Legislative Auditor

Criteria: Under Louisiana statute, the Company is required to have an annual audit of its financial statements prepared in accordance with US generally accepted accounting principles and to complete the audit and file it with the Legislative Auditor of the State of Louisiana by June 30 of each year.

Condition: The Company did not meet the June 30, 2011 deadline for reporting to the State of Louisiana. The Company did request and received from the Louisiana Legislative Auditor, an extension of time to file its audited financial statements.

Cause: The Cayman Island accounting firm initially engaged by the Company was not able to perform the audit in accordance with U.S. *Government Auditing Standards*.

Effect: The audit report was not submitted in a timely manner.

Recommendation: The Company should implement a plan to ensure timely financial reporting to ensure future reports are complete and submitted to the Legislative Auditor of the State of Louisiana by the required due date.

Corrective Action

Plan: The Company has engaged a U.S. accounting firm capable of performing the audit in accordance with U.S. *Government Auditing Standards*.

Current Status: The Company timely filed the 2011 annual report with the Legislative Auditor of the State of Louisiana. This finding is considered resolved.

2010-2 Compliance Audit issued by the Louisiana Legislative Auditor

Criteria: The State of Louisiana Legislative Auditor issued its Compliance Audit of the Louisiana Horsemen's Benevolent and Protective Association 1993 Inc. and its related entities including HIA on May 4, 2011. The Compliance Audit consisted primarily of inquiries and the examination of selected financial records and other documentation.

Condition: The Executive Summary of the Compliance Audit describes the findings and recommendations into three categories: Improper Use of Dedicated Funds, International Travel, and Board Operations.

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2011

2010-2 Compliance Audit issued by the Louisiana Legislative Auditor (continued)

<u>Cause:</u>	Actions taken by former officers and directors
<u>Effect:</u>	LAHBPA 1993 Inc. and HIA may have violated Louisiana laws through improper use of dedicated funds, international travel and board operations.
<u>Recommendation:</u>	The recommendations as described in the Compliance Audit performed by the Legislative Auditor are as follows: We recommend that LAHBPA 1993 Inc., obtain written contracts with its related entities, including, but not limited to, contractual obligations, services to be performed, expense reimbursements, and payment terms. We recommend that each entity conduct regular meetings and operate in accordance with its bylaws or trust agreements and Louisiana law. We recommend that LAHBPA 1993 Inc. comply with Louisiana law and establish a Louisiana corporation or trust to receive statutorily dedicated fees and to provide worker's compensation insurance to Louisiana horsemen. We recommend that each entity record, review and approval all minutes and maintain a single accessible location to store the approved minutes and appropriate documentation concerning each meeting.
<u>Corrective Action Plan:</u>	With respect to the workers compensation insurance program, LAHBPA 1993 Inc. has established a Louisiana trust to administer the Louisiana risk portion of the program and, with respect to the out-of-state risk portion of the program has obtained a zero-deductible insurance policy with NY Magic. As a consequence of this arrangement, HIA, the Cayman Island subsidiary, is in a run-off position with respect to prior claims and is not reinsuring losses incurred after July 16, 2011. LAHBPA 1993 Inc. now has contracts with all related entities that pay monthly management fees to LAHBPA 1993 Inc. The monthly management fees are reviewed at 6 month intervals based on the level of services actually incurred and are adjusted accordingly for the following 6 month period. LAHBPA 1993 Inc. has also adopted written policies covering meals, travel, entertainment, and credit card usage. LAHBPA 1993 Inc. and each of its affiliated organizations meet frequently on an as needed basis. Written minutes are kept and are signed by the appropriate individuals.
<u>Current Status:</u>	Resolved.